

WOOD MARKETS



HIGHLIGHTS

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Featuring Lumber, Panels and Wood Products Analysis

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U.S. Commodities Meltdown Why This May be a “Self-Made” Phenomenon

The U.S. wood products market has now approached a situation in which it appears that non-rational behavior by lumber and panel mills is driving the industry toward “suicide-type pricing.” To illustrate, here are some typical news comments made in early 2008:

“The *Random Lengths* framing lumber composite has just hit its lowest point since December 1991.”

“Douglas fir prices hit lowest level since 1980s.”

“The price of 7/16” OSB has now reached its lowest level since 1991.”

Sawmill and OSB economics continue to be bleak, and prices have moved to cyclical lows not seen in 17 years (back in the 1991 recession). These price levels will persist until enough capacity is curtailed/closed to match with continuing weak (and lower) levels of product demand. Although supply/demand theory is well known, the speed and level of capacity closures remain insufficient. This begs the question, *What else is going on that might account for the current and sustained poor price levels?*

It has been evident for some time that virtually no commodity dimension lumber or stud mill anywhere in North America is profitable (or possibly even cash-positive), including cases where logs from private lands are priced at market levels. Prices

for most 2x4 commodity structural lumber grades are at lows not seen since 1991. The only exception is southern yellow pine, 2x4s of which are trading at their highest levels since July 2006 (i.e., SYP–West prices exceeded US\$300/Mbf in February 2008) and are well off their September 2007 lows (US\$258/Mbf).

OSB is not much different, except that prices could still fall further before bottoming out, or stay under pressure for longer given the growing capacity that remains available to the market from new mill start-ups in 2007 and 2008.

For lumber, however, it is expected that in 2008 prices will begin to move up somewhat from their recent lows. The dilemma for lumber mills appears twofold:

- When will prices move off the bottom and stay above their recent lows?
- At what price level will curtailed capacity restart to push prices back down again?

One market expectation of future prices can be found in the Lumber Futures market, which actually overpriced dimension lumber throughout 2007 (futures prices still appear to be on the high side for 2008). For example, premiums of up to US\$100/Mbf could have been achieved on contracts bought in 2007 for January 2008 delivery. Normal futures contract profits were generally attractive in 2007 — perhaps offering an average of US\$30–\$50/Mbf over cash (depending

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GLOBAL PRICE TRENDS

International WOOD MARKETS Group Inc. (IWMRI & R.E. Taylor & Associates Ltd.) is pleased to provide you with an overview of our monthly 12-page **WOOD Markets** newsletter. The excerpts displayed in this two-page summary showcase why, since 1996, **WOOD Markets** has been the leading report addressing strategic issues and global topics that impact the solid wood products sector.

WOOD Markets (full 12-page report) is available by annual subscription for US\$530 (international US\$565) or Cdn\$565 per year. Call 1-604-801-5996, by e-mail at info@woodmarkets.com, or visit www.woodmarkets.com.

www.woodmarkets.com**WHAT'S NEW:****Page 1-3****U.S. Commodities Meltdown cont'd**

on the contract expiry) as the market continued to weaken. While we admit that our own forecasts in 2007 were slightly optimistic, it is evident that many lumber traders buying lumber futures got it horribly wrong (and the sellers got it correct!) during this market downturn.

Lumber-price outlooks have been complicated by a number of forest product analysts who consistently overpriced lumber and panel price forecasts in 2006 and 2007, and appear to be doing the same in 2008. There seems to be a per-

ception that the carnage created from the U.S. housing market and other demand sectors may be more temporary or will dissipate quickly. While it is the wish of all in the industry that a return to better times will happen sooner rather than later, some critical facts indicate that it may still be another eighteen months or more before we see a more balanced market situation and firm prices — perhaps a lot longer than most forecasters think — unless something significant emerges to change the scenario as it unfolds. ■

(The full WOOD Markets report outlines the economic factors or business strategies behind why some mills continue to run and when might there be a recovery in lumber prices.)

Page 4-5 Special Report
South Korea Outlook**Imports of Wood Products Set to Expand**

South Korea (Korea) is becoming a significant user of wood, and recent changes in government economic development plans indicate that the country could see significant growth in the construction of wood-frame single- and multi-family houses over the next fifteen years. In contrast to Japan and China, Korea is a relatively small wood products market. However, Korea remains an important wood market, importing some 85%–90% of the wood it consumes. This keeps

the country highly dependent on offshore suppliers of softwood logs, lumber, plywood, particleboard, and MDF.

Korea's economy appears to be following the post-war Japanese economic model by implementing a very aggressive economic makeover plan (4CNTP). This plan includes major provisions expected to positively impact housing construction and social development that should support greater consumption of wood over the next fifteen years. ■

(The complete WOOD Markets article adds further analysis on Korea's imports and consumption of wood products.)

WOOD MARKETS CHINA BULLETIN

The third issue of our newest publication, *WOOD MARKETS China Bulletin*, is ready for viewing at <http://newsletter.woodmarkets.com.cn>.

The Bulletin includes Chinese industry trends, topics of interest, statistics and prices relevant to the wood industry. For an interim period, this publication will be a free service to subscribers. To join, visit www.woodmarkets.com/china_products.html.

GLOBAL WOOD BOOK
Trends & Statistics

Released in April 2007, this report features:

- Country profiles of softwood (and hardwood) wood products industries.
- Softwood/hardwood trends (prod'n/imports/exports/consumption) in timber harvests, lumber, plywood, OSB, MDF and particleboard.
- 550 pages, over 300 full data tables and 400 summary graphs.

For details go to www.woodmarkets.com.

CLEARWOOD REPORT
Pine Lumber, Moulding & Millwork Sector Outlook to 2012
4th Edition

Scheduled for release in March, IWMG will be publishing its 4th edition of its multi-client report on the supply/demand dynamics of:

- Global pine timber and appearance lumber;
- Mouldings: solidwood, finger-joint, MDF, & plastic (including five-year price forecasts); and
- Other millwork, including windows, doors, clear boards and other segments.

New to this edition is a cost benchmarking of finger-joint and MDF moulding producers from major producing regions, as well as updated analysis on the distribution channel for mouldings within the U.S.

This report provides our strategic insight of the current and anticipated trends in the clear pine lumber & moulding sector plus our analysis of the resulting downstream market implications. For information, please contact Peter Butzelaar (peterb@woodmarkets.com).

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